



### Background

High Achievement Charter Middle School (“High Achievement”) is located in an urban area in the state of California. Established in 2003, High Achievement is currently in its seventh year of operation (year 2 of its second, 5-year charter). The school currently has stable enrollment of 225 students, with long waiting lists. Since its inception, High Achievement has been located in a former District school building under a year-to-year lease, paying approximately \$300,000 annually in rent. However, the school would like to acquire its own site to grow enrollment, reduce facilities expense as percentage of total revenue, and establish a more permanent home.

High Achievement’s founder and first principal, Kathy King, resigned at the end of the 2008 school year. The school’s new principal, Jack Johnson, has 10 years of teaching experience in traditional public schools, but has never served as principal prior to joining High Achievement. The school’s vice-principal, Betty Brown, has been with the school since its inception. She is a sharp, energetic woman ready to help shepherd the school smoothly through its relocation to a permanent site. The school is in the process of hiring a director of finance and operations and hopes to have someone in place soon to assist with the execution of site planning and financing for the new site.

The school’s test scores are strong and they have made AYP for the last four years. In addition, High Achievement has outperformed the nearest district middle schools on the API for the last several years.

### Project & Financial Information

High Achievement is in final negotiations to purchase a building that will expand its capacity from 225 to 375 students. The new building is located 1.5 miles from the current site. It has been vacant for several years and was previously a clothing retail store. The school will need to secure a Conditional Use Permit (CUP) to open a school on the site. However, the facility is located in a redevelopment area and school administrators believe they will have the necessary support from city leaders to secure the CUP. There is no recent appraisal for the building but the school estimates its value at approximately \$4.5 million once the renovations are complete.

Currently, the school has no long-term debt. Annual rent expense at the current site is \$318,000. Below is a general overview of the school’s financial performance for the last three fiscal years:

#### Historical Financial Data

	FY07	FY08	FY09
<b>Revenues</b>			
Per Pupil	\$1,350,000	\$1,390,500	\$1,432,215
Other Income	\$ 150,000	\$ 100,000	\$ 170,000
<i>Total Revenues:</i>	<i>\$1,500,000</i>	<i>\$1,490,500</i>	<i>\$1,602,215</i>
<b>Expenses</b>			
Rent	\$ 300,000	\$ 309,000	\$ 318,000
Other Operating Expenses	\$1,080,000	\$1,112,400	\$1,250,000
<i>Total Expenses:</i>	<i>\$1,380,000</i>	<i>\$1,421,400</i>	<i>\$1,568,000</i>
<b>Net Income</b>	<b>\$120,000</b>	<b>\$69,100</b>	<b>\$34,215</b>

The “as-is” purchase price of the building is \$1.5MM. Renovations are estimated to cost \$3MM. The school has raised \$500,000 in cash contributions for the project. The **total financing need is \$4,000,000.** If the school gets a conventional mortgage, the rate is assumed to be 7%. Assuming an amortization period of 20 years, annual debt service expense would be \$372,000.

The school has projected the following revenues and expenses base on enrollment growth.

#### Financial Projections

	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
<b>Enrollment</b>	<b>275</b>	<b>325</b>	<b>375</b>
<b>Revenues</b>			
Per Pupil	\$1,802,886	\$2,130,684	\$2,608,203
Other Income	\$ 180,289	\$ 213,068	\$ 260,820
<i>Total Revenues:</i>	<i>\$1,983,175</i>	<i>\$2,343,752</i>	<i>\$2,869,023</i>
<b>Expenses</b>			
Operating Expenses	\$1,586,540	\$1,875,002	\$2,295,218
<b>Net Operating Income</b>	<b>\$ 396,635</b>	<b>\$ 468,750</b>	<b>\$ 573,805</b>
Debt Service	\$ 372,000	\$ 372,000	\$ 372,000
<b>Debt Service Coverage?</b>			

The school believes that the following qualifications should help with its loan application:

- Its location in a low-income census tract that qualifies for New Markets Tax Credit (NMTC) financing.
- Its location in California gives it access to the California Charter Building Fund (CCBF) – a partnership between NCB Capital Impact (NCBCI) and The California Charter Schools Association – which provides a 10% credit enhancement to California schools for facility finance.

High Achievement has approached you to finance the acquisition and renovation of the property. Use the 5 C’s of Lending to help analyze the school and its loan request.

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#### EXERCISE/QUESTIONS FOR THE GROUP:

*NCB Capital Impact Case Study*  
*“High Achievement Charter Middle School”*

- (1) Fill out the “5 C’s of Lending” worksheet as it relates to this case study.
- (2) Discuss the strengths and weaknesses of this school’s current financial condition and its capacity to both manage and finance the proposed project. List potential mitigants of weaknesses.
- (3) Evaluate the school’s historical financial performance. Are there any areas of concern? Based on annual debt service requirement of \$372K, can the school afford the debt based on its historic financial performance? (*hint: remember to add back the rent expense when determining how much cash flow the school will have available to service the debt since the school will no longer be paying rent*).
- (4) You require a minimum DSCR of 1.15:1. Would High Achievement have met this hurdle based on historical performance? Can they meet it based on projections?

***Remember:***

$$*DSCR = \frac{\text{Net income} + \text{interest} + \text{depreciation} + \text{amortization} + \text{rent}}{\text{Annual Debt Service}}$$

**High Achievement Charter Middle School**  
**5 C’s of Lending Worksheet**

**I. Credit**

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**II. Competition**

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**III. Collateral**

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**IV. Character**

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**V. Cash Flow (or, Capacity)**

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